

MILFORD MUNICIPAL UTILITIES
INDEPENDENT AUDITORS' REPORTS
FINANCIAL STATEMENTS
AND SUPPLEMENTAL INFORMATION
JUNE 30, 2007

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**MILFORD MUNICIPAL UTILITIES
MILFORD, IOWA**

June 30, 2007

**OFFICIALS
(Before January 2007)**

<u>NAME</u>	<u>TITLE</u>	<u>TERM EXPIRES</u>
James Studer	Trustee (Chairman)	December 31, 2007
Steve Feld	Trustee (Vice Chairman)	December 31, 2006
Keith Wurtz	Trustee	December 31, 2008
Gary Moeller	Trustee	December 31, 2011
Tom Cooper	Trustee	December 31, 2009
Don Payne - Retired	Trustee	

**OFFICIALS
(After January 2007)**

James Studer	Trustee (Chairman)	December 31, 2007
Steve Feld	Trustee (Vice Chairman)	December 31, 2012
Keith Wurtz	Trustee	December 31, 2008
Gary Moeller	Trustee	December 31, 2011
Tom Cooper	Trustee	December 31, 2009

Robert Sewell	General Manager
Joyce McCrea	Office Manager/Board Secretary

INDEPENDENT AUDITORS' REPORT

Board of Trustees
Milford Municipal Utilities
Milford, IA 51351

We have audited the accompanying financial statements of the business-type activities and each major fund of Milford Municipal Utilities (Utility), a component unit of the City of Milford, Iowa as of and for the year ended June 30, 2007, which collectively comprise Milford Municipal Utilities' basic financial statements listed in the table of contents. These financial statements are the responsibility of the Utility's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with U.S. generally accepted auditing standards and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the business-type activities and each major fund of Milford Municipal Utilities at June 30, 2007, and the respective changes in the funds' financial position and cash flows for the year then ended in conformity with U.S. generally accepted accounting principles.

In accordance with *Government Auditing Standards*, we have also issued our report dated October 18, 2007 on our consideration of Milford Municipal Utilities' internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts, and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

Management's Discussion and Analysis and budgetary comparison information on pages 4 through 8 and 25 and 26 are not required parts of the basic financial statements, but are supplementary information required by the Government Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. We did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming an opinion on the financial statements that collectively comprise Milford Municipal Utilities' basic financial statements. Other supplementary information included in Schedule 1 is presented for purposes of additional analysis and is not a required part of the financial statements. Such information has been subjected to the auditing procedures applied in our audit of the financial statements and, in our opinion, is fairly stated in all material respects in relation to the financial statements taken as a whole.

Williams & Company, P.C.

Certified Public Accountants

Spencer, Iowa
October 18, 2007

MANAGEMENT'S DISCUSSION AND ANALYSIS

Milford Municipal Utilities provides this Management's Discussion and Analysis of its financial statements. This narrative overview and analysis of the financial activities is for the year ended June 30, 2007. We encourage readers to consider this information in conjunction with the Utilities' financial statements, which follow.

2006-07 FINANCIAL HIGHLIGHTS

- ◆ The Utilities revenues increased 9.5%, or approximately \$289,000, from fiscal 2006 to fiscal 2007.
- ◆ Expenses increased by 3.8%, or approximately \$110,000, in fiscal 2007 from fiscal 2006.
- ◆ The Utility's net assets increased 4.2% or approximately \$327,000 during 2007.

USING THIS ANNUAL REPORT

The annual report consists of a series of financial statements and other information, as follows:

Management's Discussion and Analysis introduces the basic financial statements and provides an analytical overview of the Utility's financial activities.

Government-wide Financial Statements consist of a Statement of Net Assets and a Statement of Activities. These provide information about the activities of the Utility as a whole and present an overall view of the Utility's finances.

Fund financial statements report the Utility's operations in more detail by providing information about the most significant funds.

Notes to financial statements provide additional information essential to a full understanding of the data provided in the basic financial statements.

Required Supplementary Information further explains and supports the financial statements with a comparison of the Utility's budget for the year.

The Other Supplementary Information in Schedule 1 is unaudited and provides detailed information about the usage levels of each utility.

REPORTING THE UTILITIES FINANCIAL ACTIVITIES

Fund Financial Statements

Milford Municipal Utilities utilizes one kind of fund:

Proprietary funds account for the Utility's Enterprise Funds. Enterprise Funds are used to report business type activities. The Utility maintains two Enterprise Funds to provide separate information for the electric and water funds, all are considered to be major funds of the utility.

The required financial statements for proprietary funds include a statement of net assets, a statement of revenues, expenses and changes in fund net assets and a statement of cash flows.

GOVERNMENT-WIDE FINANCIAL ANALYSIS

As noted earlier, net assets may serve over time as a useful indicator of financial position. The analysis that follows focuses on the changes in net assets.

Net Assets of Business Type Activities		
	Year ended June 30,	
	2007	2006
Current and other assets	\$ 2,796,194	\$ 3,116,533
Capital assets (net of depreciation)	9,156,659	8,735,048
Total assets	11,952,853	11,851,581
Long-term debt outstanding	3,467,576	3,809,640
Other liabilities	418,889	394,379
Total liabilities	3,886,465	4,204,019
Net assets:		
Invested in capital assets	5,689,083	5,525,408
Restricted	100,562	602,654
Unrestricted	2,276,743	1,519,500
Total net assets	\$ 8,066,388	\$ 7,647,562

The following analysis focuses on the change in net assets for the combined divisions of MMU:

Changes in Net Assets of Business Type Activities		
	Year ended June 30,	
	2007	2006
Revenues:		
Charges for service	\$ 3,232,305	\$ 2,942,694
General revenues:		
Unrestricted investment earnings	113,029	113,730
Other General revenues	512	522
Total revenues	3,345,846	3,056,946
Program expenses:		
Business type activities	3,019,020	2,909,033
Total expenses	3,019,020	2,909,033
Increase in net assets	326,826	147,913
Net assets beginning of year	7,647,562	7,499,649
Prior period adjustment	92,000	-
Net assets beginning of year, restated	7,739,562	7,499,649
Net assets end of year	\$ 8,066,388	\$ 7,647,562

INDIVIDUAL MAJOR FUND ANALYSIS

As Milford Municipal Utilities completed the year, its enterprise funds reported a combined fund balance of \$8.07 million, an increase of approximately \$419,000 under last year's total of \$7.64 million. The following are the major reasons for the changes in fund balances of the major funds from the prior year:

- Electric Fund revenues showed an increase of \$283,668 due to increased sales to customers due to a rate increase in December and increased usage. The Electric Fund expenses increased \$77,560, attributable to increased Equipment maintenance and increase in expense associated with power purchased from NIMECA. The ending fund balance was \$5,348,362, an increase of \$195,178 from last year.
- Water Fund revenues increased by \$5,232 during 2007 as compared to 2006, due to a marginal increase in the number of gallons used. There were no water rate changes during the fiscal year. Expenses increased \$32,427, which can be attributed to increase in plant maintenance as compared to the prior year. The ending fund balance was \$2,718,026, an increase of \$131,648 from the prior year.

BUDGETARY HIGHLIGHTS

Over the course of the year, MMU did amend their budget during May 2007. This amendment was needed to cover unplanned disbursements. MMU's disbursements for business type activities did not exceed the budgeted limit for 2007.

CAPTIAL ASSETS AND DEBT ADMINISTRATION

Capital Assets

At June 30, 2007, MMU had approximately \$9 million (net of depreciation) invested in a broad range of capital assets, including land, buildings, infrastructure, equipment, and vehicles. This is a net increase (including additions and deletions net of depreciation) of approximately \$420,000 or 5 percent as compared with last year. Depreciation charges totaled \$383,820 for the fiscal year 2007 and total accumulated depreciation of \$7,766,097 at June 30, 2007. See Note 3 to the financial statements for more information about the Utility's capital assets.

LONG TERM DEBT/LIABILITIES

At June 30, 2007, MMU had \$3,467,576 in revenue bonds outstanding compared to \$3,809,640 at June 30, 2006. During the year ended June 30, 2007 the Utility issued a total of \$925,000 in revenue bonds to refinance the bonds issued in 1997. Additional information about the Utility's long-term debt is presented in Note 4 to the financial statements.

ECONOMIC FACTORS AND NEXT YEAR'S BUDGETS AND RATES

Milford Municipal Utilities remains committed to investing in the necessary capital improvements and major maintenance items on each distribution system enabling continued delivery for the utmost in reliable products and services.

In 2007, Milford Municipal Utilities Electric department has planned an extensive reconstruction project that will involve several parts of town. The construction project involves the installation of new underground electric wires and associated equipment for a separate circuit to Style Craft. For 2008 the MMU electric department will have a new substation transformer installed along with a new industrial circuit and associated equipment. Consistent with the need to invest for the future, Milford Municipal Utilities joined with other Cities and Utilities back in 1962 to purchase power from the dams on the Missouri River. We have enjoyed receiving this renewable energy ever since. You could say that Milford had the foresight 45 years ago to invest in renewable energy. In 1976 MMU power supplies were once again getting tight and needed to invest into an additional power source, so MMU bought into the Neal #4 Generating Station south of Sioux City. In 1997 MMU put an addition 6 MW of diesel generators to the existing 1 MW of older generation of which both is used for peaking and emergency power use. Once again MMU joined with other Iowa utilities to take the lead in partnering in renewable

energy sources by moving into wind generation. MMU has a share in the Hancock Wind Farm that was put up in 2005 south of Ventura, Iowa which we receive 902,900 kwh's per year. MMU also has a share in the Crosswinds Wind Farm south of Ruthven which we should receive 826,158 kwh's of electricity annually, which amounts to 38% of our requirements are renewable energy. MMU is looking into another wind farm that is on the table and hope to receive an additional 1,652,316 kwh's per year and add an additional 17% of wind energy for a total of 55% of our total load requirements. So you can see the goal is simple: try to use proven technologies (like wind) in new ways to control energy costs, improve air quality by enhancing wind energy, and increase Iowa's energy supplies while helping the environment. But we still need additional baseload Generation to cover our expected load growth. MMU is now looking into the Sutherland #4 Power Generating Station with several more utilities in Iowa.

For the Water Department we will be repainting the Water tower.

CONTACTING THE UTILITY'S FINANCIAL MANAGEMENT

This financial report is designed to provide our citizens, taxpayers, customers, and creditors with a general overview of MMU's finances and operating activities. If you have questions about this report or need additional information, please contact management at 104 W Call Street, Milford, IA.

MILFORD MUNICIPAL UTILITIES
STATEMENT OF NET ASSETS
JUNE 30, 2007

	<u>Business-Type Activities</u>
Assets:	
Cash and Cash Equivalents	\$ 619,353
Accounts Receivable	396,615
Inventory	434,568
Other Current Assets	104,100
Restricted Assets	1,190,327
Other Assets	51,231
Capital Assets Not Being Depreciated	83,348
Capital Assets Being Depreciated - Net of Accumulated Depreciation	<u>9,073,311</u>
Total Assets	11,952,853
Liabilities:	
Accounts Payable	311,523
Accrued Interest	12,175
Salaries and Benefits Payable	24,346
Accrued Expenses	32,328
Consumers' Deposits	38,517
Long-Term Liabilities:	
Due or Payable Within One Year:	
Revenue Bonds/Notes	334,199
Due or Payable After One Year:	
Revenue Bonds/Notes	<u>3,133,377</u>
Total Liabilities	<u>3,886,465</u>
Net Assets:	
Invested in Capital Assets - Net of Related Debt	5,689,083
Restricted:	
Capital Projects	100,562
Unrestricted	<u>2,276,743</u>
Total Net Assets	<u><u>\$ 8,066,388</u></u>

See Accompanying Notes to Financial Statements

**MILFORD MUNICIPAL UTILITIES
STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED JUNE 30, 2007**

	<u>Business-Type Activities</u>
Operating Revenues:	
Residential	\$ 1,321,525
Commercial	723,573
Demand	674,893
Tank Lot Water Sales	5,259
Meter Sales	17,013
Public Authorities	60,677
Water Department	28,706
Neal #4 Credits	137,729
Diesel Credits	242,546
Consumer Penalties	4,634
Miscellaneous Income	16,262
Total Operating Revenues	<u>3,232,817</u>
Operating Expenses:	
Direct Costs	1,610,684
Operating Expenses	428,816
Administrative Expenses	818,008
Total Operating Expenses	<u>2,857,508</u>
Operating Income	375,309
Non-Operating Income (Expense):	
Interest Income	104,136
Dividend Income	8,893
Interest Expense	(161,512)
Total Non-Operating (Expense)	<u>(48,483)</u>
Change in Net Assets	326,826
Net Assets at Beginning of Year	7,647,562
Prior Period Adjustment	92,000
Net Assets at Beginning of Year, Restated	<u>7,739,562</u>
Net Assets at End of Year	<u><u>\$ 8,066,388</u></u>

See Accompanying Notes to Financial Statements

**MILFORD MUNICIPAL UTILITIES
STATEMENT OF FUND NET ASSETS
JUNE 30, 2007**

ASSETS

	<u>Electric Fund</u>	<u>Water Fund</u>	<u>Total</u>
Current Assets:			
Cash and Cash Equivalents			
Unrestricted, Undesignated	\$ 176,665	\$ 10,647	\$ 187,312
Board Designated:			
Improvement and Extension	59,328	171,078	230,406
Vehicle and Equipment Funds	52,729	29,086	81,815
Fuel Oil Fund	32,102	-	32,102
Community Development Fund	87,718	-	87,718
Accounts Receivable	289,192	107,423	396,615
Inventory	390,729	43,839	434,568
Prepaid Expenses	26,368	38,822	65,190
Interest Receivable	2,806	2,813	5,619
Other Receivables	32,988	303	33,291
Total Current Assets	<u>1,150,625</u>	<u>404,011</u>	<u>1,554,636</u>
Noncurrent Assets:			
Purchased Service Rights (at cost)	13,470	-	13,470
CTS - Acquisition Costs (net)	37,761	-	37,761
Restricted Assets:			
Consumers' Deposit Fund	52,921	-	52,921
Revenue Bond Sinking Fund	36,059	25,160	61,219
Principal and Interest Reserve	240,000	109,000	349,000
CTS - Improvement Fund	100,562	-	100,562
Sewer Fund - District & City	22,716	-	22,716
Loan Proceeds For Future Capital Improvement	-	603,909	603,909
Total Noncurrent Assets	<u>503,489</u>	<u>738,069</u>	<u>1,241,558</u>
Capital Assets:			
Capital Assets	10,436,234	6,486,522	16,922,756
Accumulated Depreciation	<u>(5,544,284)</u>	<u>(2,221,813)</u>	<u>(7,766,097)</u>
Total Capital Assets	<u>4,891,950</u>	<u>4,264,709</u>	<u>9,156,659</u>
Total Assets	<u><u>\$ 6,546,064</u></u>	<u><u>\$ 5,406,789</u></u>	<u><u>\$11,952,853</u></u>

See Accompanying Notes to Financial Statements

MILFORD MUNICIPAL UTILITIES
STATEMENT OF FUND NET ASSETS - Continued
JUNE 30, 2007

LIABILITIES AND NET ASSETS

	<u>Electric Fund</u>	<u>Water Fund</u>	<u>Total</u>
Current Liabilities:			
Accounts Payable	\$ 210,767	\$ 100,756	\$ 311,523
Accrued Employee Benefits	17,901	5,272	23,173
Accrued Interest	3,665	8,510	12,175
Accrued Payroll Taxes	777	396	1,173
Accrued Sales Tax	5,788	3,739	9,527
Accrued Property Tax	14,426	-	14,426
Accrued Wheeling	8,375	-	8,375
Consumers' Deposits	38,517	-	38,517
Current Portion of Long-Term Debt	169,103	165,096	334,199
Total Current Liabilities	<u>469,319</u>	<u>283,769</u>	<u>753,088</u>
Notes Payable:			
Revenue Capital Loan Notes Payable	897,486	2,570,090	3,467,576
Less - Current Portion	<u>(169,103)</u>	<u>(165,096)</u>	<u>(334,199)</u>
Total Notes Payable	<u>728,383</u>	<u>2,404,994</u>	<u>3,133,377</u>
Total Liabilities	1,197,702	2,688,763	3,886,465
Net Assets:			
Invested in Capital Assets - Net of Related Debt	3,994,464	1,694,619	5,689,083
Restricted:			
Capital Projects	100,562	-	100,562
Unrestricted	<u>1,253,336</u>	<u>1,023,407</u>	<u>2,276,743</u>
Total Net Assets	<u>5,348,362</u>	<u>2,718,026</u>	<u>8,066,388</u>
Total Liabilities and Net Assets	<u><u>\$ 6,546,064</u></u>	<u><u>\$ 5,406,789</u></u>	<u><u>\$ 11,952,853</u></u>

See Accompanying Notes to Financial Statements

**MILFORD MUNICIPAL UTILITIES
STATEMENTS OF REVENUES, EXPENSES AND
CHANGES IN FUND NET ASSETS
FOR THE YEAR ENDED JUNE 30, 2007**

	Electric Fund	Water Fund	Total
Operating Revenues:			
Residential	\$ 971,389	\$ 350,136	\$ 1,321,525
Commercial	408,274	315,299	723,573
Demand	674,893	-	674,893
Tank Lot Water Sales	-	5,259	5,259
Meter Sales	-	17,013	17,013
Public Authorities	60,677	-	60,677
Water Department	28,706	-	28,706
Neal #4 Credits	137,729	-	137,729
Diesel Credits	242,546	-	242,546
Consumer Penalties	3,675	959	4,634
Miscellaneous Income	9,641	6,621	16,262
Total Operating Revenues	<u>2,537,530</u>	<u>695,287</u>	<u>3,232,817</u>
Operating Expenses:			
Direct Costs	1,499,553	111,131	1,610,684
Other Operating Expenses	286,587	142,229	428,816
Administrative Expenses	557,321	260,687	818,008
Total Operating Expenses	<u>2,343,461</u>	<u>514,047</u>	<u>2,857,508</u>
Operating Income	<u>194,069</u>	<u>181,240</u>	<u>375,309</u>
Non-Operating Income (Expense):			
Interest Income	50,785	53,351	104,136
Dividend Income	6,339	2,554	8,893
Interest Expense	(56,015)	(105,497)	(161,512)
Total Non-Operating (Expense)	<u>1,109</u>	<u>(49,592)</u>	<u>(48,483)</u>
Change in Net Assets	195,178	131,648	326,826
Net Assets at Beginning of Year	5,088,184	2,559,378	7,647,562
Prior Period Adjustment	65,000	27,000	92,000
Net Assets at Beginning of Year, Restated	<u>5,153,184</u>	<u>2,586,378</u>	<u>7,739,562</u>
Net Assets at End of Year	<u><u>\$ 5,348,362</u></u>	<u><u>\$ 2,718,026</u></u>	<u><u>\$ 8,066,388</u></u>

See Accompanying Notes to Financial Statements

**MILFORD MUNICIPAL UTILITIES
STATEMENTS OF CASH FLOWS
FOR THE YEAR ENDED JUNE 30, 2007**

	Electric Fund	Water Fund	Total
Cash Flows From Operating Activities:			
Cash Received From Customers	\$ 2,501,854	\$ 698,503	\$ 3,200,357
Cash Paid to Suppliers	(1,778,168)	(210,804)	(1,988,972)
Cash Paid to Employees	(269,581)	(135,271)	(404,852)
Net Cash Provided By Operating Activities	<u>454,105</u>	<u>352,428</u>	<u>806,533</u>
Cash Flows From Capital and Related Financing Activities:			
Acquisition and Construction of Capital Assets	(390,918)	(414,513)	(805,431)
Revenue Bond Principal Repayment	(1,107,514)	(159,550)	(1,267,064)
Revenue Bond Proceeds	925,000	-	925,000
Interest Paid	(77,217)	(106,020)	(183,237)
Net Cash (Used) By Capital and Related Financing Activities	<u>(650,649)</u>	<u>(680,083)</u>	<u>(1,330,732)</u>
Cash Flows From Investing Activities:			
Proceeds From Redemption of Investments	58,567	705,000	763,567
Purchase of Investments	-	(559,000)	(559,000)
Interest Received From Investments	58,832	55,133	113,965
Net Cash Provided From Investing Activities	<u>117,399</u>	<u>201,133</u>	<u>318,532</u>
Net (Decrease) in Cash	(79,145)	(126,522)	(205,667)
Cash at Beginning of Year	<u>487,687</u>	<u>337,333</u>	<u>825,020</u>
Cash at End of Year	<u><u>\$ 408,542</u></u>	<u><u>\$ 210,811</u></u>	<u><u>\$ 619,353</u></u>
Reconciliation:			
Cash and Cash Equivalents			
Unrestricted, Undesignated	\$ 176,665	\$ 10,647	\$ 187,312
Board Designated:			
Improvement and Extension	59,328	171,078	230,406
Vehicle and Equipment Funds	52,729	29,086	81,815
Fuel Oil Fund	32,102	-	32,102
Community Development Fund	87,718	-	87,718
	<u><u>\$ 408,542</u></u>	<u><u>\$ 210,811</u></u>	<u><u>\$ 619,353</u></u>

See Accompanying Notes to Financial Statements

MILFORD MUNICIPAL UTILITIES
STATEMENTS OF CASH FLOWS - Continued
FOR THE YEAR ENDED JUNE 30, 2007

	Electric Fund	Water Fund	Total
Reconciliation of Operating Income to Net Cash Provided By Operating Activities:			
Operating Income	\$ 194,069	\$ 181,240	\$ 375,309
Adjustments to Reconcile Operating Income to Net Cash Provided By Operating Activities:			
Depreciation	251,131	132,689	383,820
Amortization	26,139	-	26,139
(Increase) Decrease in Operating Assets:			
Accounts Receivable	(28,114)	2,985	(25,129)
Inventory	(34,928)	(3,133)	(38,061)
Prepaid Expenses	(1,526)	9,238	7,712
Other Receivables	(3,710)	231	(3,479)
Consumer Deposits Fund	(4,196)	-	(4,196)
CTS Improvement Fund	39,714	-	39,714
Sewer Fund - District & City	(1,531)	-	(1,531)
Increase (Decrease) in Operating Liabilities:			
Accounts Payable	19,467	28,420	47,887
Accrued Employee Benefits	(398)	503	105
Accrued Payroll Taxes	(75)	(2)	(77)
Accrued Sales Tax	361	257	618
Accrued Property Tax	(4,188)	-	(4,188)
Accrued Wheeling	15	-	15
Consumer Deposits	1,875	-	1,875
Net Cash Provided By Operating Activities	<u>\$ 454,105</u>	<u>\$ 352,428</u>	<u>\$ 806,533</u>

See Accompanying Notes to Financial Statements

**MILFORD MUNICIPAL UTILITIES
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2007**

Note 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

A. Reporting Entity

The financial statements of Milford Municipal Utilities include the Electric and Water enterprise funds which provide services to the residents of the City of Milford. Milford Municipal Utilities is governed by a five-member board of trustees, which is appointed by the Mayor of the City of Milford. Based on the criteria set forth by the Governmental Accounting Standards Board, Milford Municipal Utilities is considered a component unit of the City of Milford. However, the City's audit covers the primary government only; therefore it does not include financial information concerning the Utilities.

For financial reporting purposes, the Milford Municipal Utilities has included all funds, organizations, agencies, boards, commissions, and authorities. The Utilities has also considered all potential component units for which it is financially accountable and other organizations for which the nature and significance of their relationship with the component unit are such that exclusion would cause the component unit's financial statements to be misleading or incomplete. The Governmental Accounting Standards Board has set forth criteria to be considered in determining financial accountability. These criteria include appointing a voting majority of an organization's governing body and (a) the ability of the Utilities to impose its will on that organization or (b) the potential for the organization to provide specific benefits to or impose specific financial burdens on the Utilities. Milford Municipal Utilities has no component units.

B. Government-wide Financial Statements

The government-wide financial statements include the Statement of Net Assets and the Statement of Activities, which report information on all of the activities of the Utilities. For the most part, the effect of interfund activity has been removed from these statements.

The Statement of Net Assets reports three categories of net assets:

Invested in Capital Assets, Net of Related Debt – consists of capital assets, net of accumulated depreciation and reduced by outstanding balances for bonds, notes and other debt attributable to the acquisition, construction or improvement of those assets.

Restricted Net Assets – result when constraints placed on net asset use are either externally imposed or imposed by law through constitutional provisions or enabling legislation.

Unrestricted Net Assets – consist of net assets not meeting the definition of the two preceding categories. Unrestricted Net Assets often have constraints on resources imposed by management which can be removed or modified.

The statement of activities demonstrates the degree to which the direct expenses of a given function or segment is offset by program revenues. Direct expenses are those that are clearly identifiable with a specific function or segment. Program revenues include (1) charges to customers or applicants who purchase, use or directly benefit from goods, services or privileges provided by a given function or segment and (2) grants and contributions that are restricted to meeting the operational or capital requirements of a particular function or segment. Other items not properly included among program revenues are reported instead as general revenues.

**MILFORD MUNICIPAL UTILITIES
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2007**

Note 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – Continued

C. Fund Financial Statements

Major individual enterprise funds are reported as separate columns in the fund financial statements. The Utilities report the following major enterprise funds:

Electric Fund – The Electric Fund accounts for the operation and maintenance of the electric distribution system

Water Fund – The Water Fund accounts for the operation and maintenance of the water distribution system.

D. Measurement Focus, Basis of Accounting, and Financial Statement Presentation

The accounts of Milford Municipal Utilities are organized on the basis of funds, each of which is considered to be a separate accounting entity. The Utilities' financial statements are reported using the economic resources measurement focus and the accrual basis of accounting. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows.

In reporting the financial activity of its enterprise funds, the Utilities applies all applicable GASB pronouncements as well as the following pronouncements issued on or before November 30, 1989, unless these pronouncements conflict with or contradict GASB pronouncements: Financial Accounting Standards Board Statements and Interpretations, Accounting Principles Board Opinions, and Accounting Research Bulletins of the Committee on Accounting Procedure.

The Utilities distinguishes operating revenues and expenses from non-operating items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with the Utilities' principal ongoing operations. The principal operating revenues of the Utilities are charges to customers for sales and services. Operating expenses include the cost of sales and services, administrative expenses, and depreciation on capital assets. All revenues and expenses not meeting this definition are reported as non-operating revenues and expenses.

E. Assets, Liabilities, and Fund Equity

The following accounting policies are followed in preparing the financial statements:

Cash and Cash Equivalents

For the purpose of the statement of cash flows, the Utilities considers as cash and cash equivalents all unrestricted currency on hand, demand and other deposit accounts with banks or other financial institutions, and certificates of deposits with an original maturity of three months or less.

Accounts Receivable

Accounts receivable and revenue are recorded at the time service is billed. Unbilled revenue for service consumed between periodic scheduled billing dates is estimated and is recognized as revenue in the period in which service is provided. Accounts are reviewed annually; accounts considered uncollectible are written off at that time. Management believes there are no material uncollectible accounts at June 30, 2007.

**MILFORD MUNICIPAL UTILITIES
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2007**

Note 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - Continued

Inventories

Inventories are valued at the lower of cost or market on a first-in, first-out (FIFO) basis. Inventories are recorded as an expenditure or, if applicable, capitalized when consumed.

Capital Assets

Capital assets, which include property, plant and equipment, are stated at cost. The report sets forth the original cost of the assets and accumulated depreciation thereon, based on depreciation rates commensurate with the average normal useful life of the various components of the plant and system. Subsequent additions to the plant and system are recorded on the basis of materials and direct labor costs only and no overhead to cover such items as payroll taxes, materials, handling and transportation has been capitalized. The Utilities accounted for existing infrastructure through the use of an independent engineer's report.

Interest costs are capitalized when incurred on debt where proceeds were used to finance the construction of assets. Interest earned on proceeds of tax-exempt borrowing arrangements restricted to the acquisition of qualifying assets is offset against interest costs in determining the amount to be capitalized.

Replacements and betterments of capital assets are charged to capital assets. Routine maintenance and repairs are charged to expense as incurred.

Depreciation rates have been applied on a straight-line basis. Estimated useful lives, in years, for depreciable assets are as follows:

Building and plant	20-50
Equipment	7-20
Distribution System	20-67

Other Assets

CTS acquisition costs are being amortized on a straight-line basis over 25 years, and are presented at the net value. Loan costs related to issued capital notes are being amortized on a straight-line basis over 15 years, which approximates the effective interest method, and are presented at the net value.

Current Liabilities

The accrued wheeling and property taxes represent charges for the transmission of power over the power lines.

**MILFORD MUNICIPAL UTILITIES
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2007**

Note 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – Continued

Net Assets

Net assets represent the difference between assets and liabilities in the financial statements. The Utilities' policy is to first apply restricted resources when an expense is incurred for purposes for which both restricted and unrestricted net assets are available.

Income Taxes

The Utilities is exempt from federal and state income taxes because it is a governmental entity organized under the provisions of Chapter 388 of the Code of Iowa.

Use of Estimates

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Accordingly, actual results could differ from those estimates.

Budgets and Budgetary Accounting

The Board of Trustees of Milford Municipal Utilities submits an annual budget prepared on the accrual basis independent from the City of Milford.

Note 2 – CASH AND CASH EQUIVALENTS AND NONCURRENT INVESTMENTS

The Utilities' deposits in banks at June 30, 2007, were entirely covered by Federal depository insurance or by the State Sinking Fund in accordance with Chapter 12C of the Code of Iowa. This chapter provides for additional assessments against the depositories to insure there will be no loss of public funds.

The Utilities is authorized by statute to invest public funds in obligations of the United States government, its agencies and instrumentalities; certificates of deposit or other evidences of deposit at federally insured depository institutions approved by the Board of Trustees; prime eligible bankers acceptances; certain high-rated commercial paper; perfected repurchase agreement; certain registered open-end management investment companies; certain joint investment trusts; and warrants or improvement certificates of a drainage district.

The Utilities had no assets classified as investments at June 30, 2007.

**MILFORD MUNICIPAL UTILITIES
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2007**

Note 3 – CAPITAL ASSETS

Capital assets activity for the year ended June 30, 2007 was as follows:

<u>Water Fund</u>	Beginning Balance	Additions	Deletions	Ending Balance
Capital Assets Not Being Depreciated:				
Land	\$ 37,855	\$ -	\$ -	\$ 37,855
Construction in Progress	1,072,798	277,825	(1,350,623)	-
Total Capital Assets Not Being Depreciated	1,110,653	277,825	(1,350,623)	37,855
Capital Assets Being Depreciated:				
Production Plant:				
Buildings	1,819,241	1,393,677	-	3,212,918
Intakes	79,733	-	-	79,733
Equipment	1,093,882	7,017	-	1,100,899
Mains	1,098,551	71,222	-	1,169,773
Wells	196,405	1,725	-	198,130
Storage and Distribution Plant:				
Towers	251,067	-	-	251,067
Mains, Hydrants, and Service	219,113	-	-	219,113
Meters	186,425	13,670	-	200,095
General Plant:				
Tools and Work Equipment	16,939	-	-	16,939
Total Capital Assets Being Depreciated	4,961,356	1,487,311	-	6,448,667
Less: Accumulated Depreciation	2,089,124	132,689	-	2,221,813
Total Capital Assets Being Depreciated, net	2,872,232	1,354,622	-	4,226,854
Total Capital Assets, net	\$ 3,982,885	\$ 1,632,447	\$ (1,350,623)	\$ 4,264,709

**MILFORD MUNICIPAL UTILITIES
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2007**

Note 3 – CAPITAL ASSETS – Continued

<u>Electric Fund</u>	Beginning Balance	Additions	Deletions	Ending Balance
Capital Assets Not Being Depreciated:				
Land	\$ 32,365	\$ -	\$ -	\$ 32,365
Construction in Progress	-	13,128	-	13,128
Total Capital Assets Not Being Depreciated	32,365	13,128	-	45,493
Capital Assets Being Depreciated:				
Production Plant:				
Building	391,242	-	-	391,242
Machinery and Equipment	604,871	69,320	-	674,191
Accessory Electric Equipment	764,155	-	-	764,155
Neal #4	1,294,088	2,010	(10,468)	1,285,630
Common Transmission System	1,403,693	109,067	-	1,512,760
Distribution Plant:				
Distribution Facilities	4,909,544	182,233	-	5,091,777
Street Lights and Signal Systems	205,841	22,786	-	228,627
General Plant:				
Transportation Equipment	305,026	-	-	305,026
Other Equipment	137,333	-	-	137,333
Total Capital Assets Being Depreciated	10,015,793	385,416	(10,468)	10,390,741
Less: Accumulated Depreciation	5,295,996	255,416	(7,128)	5,544,284
Total Capital Assets Being Depreciated, net	4,719,797	130,000	(3,340)	4,846,457
Total Capital Assets, net	\$ 4,752,162	\$ 143,128	\$ (3,340)	\$ 4,891,950
Total Business Type Capital Assets, net	\$ 8,735,047	\$ 1,775,575	\$ (1,353,963)	\$ 9,156,659

The Electric Utility's 0.347% ownership interest in George Neal Generating Station No. 4 represents a total investment of \$1,285,630 included in utility plant in service with \$961,541 included in accumulated depreciation.

Total depreciation for the year ended June 30, 2007 for the Water Fund and Electric Fund were \$132,689 and \$251,131, respectively.

**MILFORD MUNICIPAL UTILITIES
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2007**

Note 3 – CAPITAL ASSETS – Continued

Reconciliation of Investment in Capital Assets:	Water Fund	Electric Fund
Total Capital Assets, Net	\$ 4,264,709	\$ 4,891,950
Less: Related Debt	<u>2,570,090</u>	<u>897,486</u>
Investment in Capital Assets, Net of Related Debt	<u>\$ 1,694,619</u>	<u>\$ 3,994,464</u>

Note 4 - LONG-TERM DEBT

A summary of the changes in long-term debt for the year ended June 30, 2007 is as follows:

<u>Water Fund</u>	<u>Beginning Balance</u>	<u>Additions</u>	<u>Reductions</u>	<u>Ending Balance</u>	<u>Due Within One Year</u>
Series 2003 Revenue Bonds	\$ 1,015,891	\$ -	\$ 67,988	\$ 947,903	\$ 70,901
Series 2005 Revenue Bonds	1,713,749	-	91,562	1,622,187	94,195
Total Water Revenue Bonds	<u>2,729,640</u>	<u>-</u>	<u>159,550</u>	<u>2,570,090</u>	<u>165,096</u>
 <u>Electric Fund</u>					
Series 1997 Revenue Bonds	1,080,000	-	1,080,000	-	-
Series 2007 Revenue Bonds	-	925,000	27,514	897,486	169,103
Total Electric Revenue Bonds	<u>1,080,000</u>	<u>925,000</u>	<u>1,107,514</u>	<u>897,486</u>	<u>169,103</u>
Total Revenue Bonds	<u>\$ 3,809,640</u>	<u>\$925,000</u>	<u>\$ 1,267,064</u>	<u>\$ 3,467,576</u>	<u>\$ 334,199</u>

The resolutions concerning the issuance of the above noted revenue bonds all include requirements for the Utility to maintain Sinking and Reserve Funds. United Community Bank, the sole owner of the bonds has waived these fund requirements.

Water Fund

On June 24, 2003, the Utility issued a Water Revenue Refinancing Capital Loan Note – Series 2003, in the amount of \$1,200,000. The note bears interest at the rate of 3.5% per annum and matures on August 1, 2004 through July 1, 2018. The monthly payment required is \$8,579, including interest.

On May 25, 2005 the Utility issued Water Revenue Capital Loan Notes in the amount of \$1,800,000. The notes bear interest at 4.25% and mature from December, 2005 to June, 2020 and require monthly payments of \$13,552.

The Series 2003 and Series 2005 Capital Loan Notes are secured by future net revenues of the Water Utility.

**MILFORD MUNICIPAL UTILITIES
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2007**

Note 4 - LONG-TERM DEBT – Continued

A summary of the Water Fund's long-term indebtedness follows:

	Series 2003 Revenue Bonds		Series 2005 Revenue Bonds	
	Principal	Interest	Principal	Interest
2008	\$ 70,901	\$ 29,282	\$ 94,195	\$ 61,375
2009	73,423	29,524	98,154	63,042
2010	76,034	26,913	102,408	58,788
2011	78,739	24,209	106,846	54,350
2012	81,540	21,408	111,476	49,720
2013-2017	453,319	61,420	634,174	171,807
2018-2020	113,947	2,438	474,934	33,402
Total	\$ 947,903	\$ 195,194	\$ 1,622,187	\$ 492,484

Electric Fund

During the year ended June 30, 1997, the Utility issued electric revenue notes in the amount of \$2,200,000 for the construction costs related to an addition to the power plant and improvement to the generation facilities. The notes bear interest of 4.40% - 5.65%, mature annually from February 1, 1999 to February 1, 2012, and are secured by future net revenues of the Electric Utility.

During the year ended June 30, 2007, the Utility issued electric revenue refunding notes in the amount of \$925,000 to refund the about 1997 issue prior to maturity to realize debt service savings due to lower interest rates on the new issue. The note bears interest of 4.90%, and matures monthly from May 1, 2007 to April 1, 2012. The monthly payment required is \$17,443.06, including interest.

A summary of the Electric Fund's June 30, 2007 long-term indebtedness is as follows:

	Series 2007 Revenue Bonds	
	Principal	Interest
2008	\$ 169,103	\$ 36,548
2009	177,578	31,738
2010	186,478	22,838
2011	195,823	13,493
2012	168,504	3,768
Total	\$ 897,486	\$ 108,385

**MILFORD MUNICIPAL UTILITIES
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2007**

Note 5 - PENSION AND RETIREMENT BENEFITS

The Utilities contributes to the Iowa Public Employees Retirement System (IPERS) which is a cost-sharing multiple-employer defined benefit pension plan administered by the State of Iowa. IPERS provides retirement and death benefits which are established by State statute to plan members and beneficiaries. IPERS issues a publicly available financial report that includes financial statements and required supplementary information. The report may be obtained by writing to IPERS, PO Box 9117, Des Moines, Iowa, 50306-9117.

Plan members are required to contribute 3.70% of their annual covered salary and the Utilities is required to contribute 5.75% of covered payroll. Contribution requirements are established by State statute. The Utilities contribution to IPERS for the years ended June 30, 2007, 2006, and 2005 were \$20,565, \$20,788 and \$18,741, respectively, equal to the required contributions for each year.

Note 6 - RATES

The Utilities' rates are established by the Board of Trustees and, as a municipal system, are not subject to the regulation of the Utilities Division of the Department of Commerce of the State of Iowa.

Effective December 20, 2006, the Electric Utility increased user rates for all consumption by 10%.

Note 7 - LEASES

Under a joint ownership agreement with other utilities, the Electric Utility has a 34.7% undivided interest in a 640 MW electric generation station known as George Neal Generating Station No. 4. The Electric Utility leases electrical generation capacity of its share of the Neal 4 plant under operating leases to other utilities or their associations. The revenues from such leases are included in operating income. The Utility's investment in these facilities is included in capital assets in service and is set forth in Note 3. Operating costs associated with this plant and depreciation are reflected in the statement of income.

Note 8 - RISK MANAGEMENT

Milford Municipal Utilities is exposed to various risks of loss related to torts; theft, damage to and destruction of assets; errors and omissions, injuries to employees; and natural disasters. These risks are covered by the purchase of commercial insurance. Settled claims from these risks have not exceeded commercial insurance coverage in any of the past three fiscal years.

**MILFORD MUNICIPAL UTILITIES
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2007**

Note 9 – PRIOR PERIOD ADJUSTMENTS

	<u>Electric Fund</u>	<u>Water Fund</u>
Beginning Fund Balance, As Previously Reported	\$ 5,088,184	\$ 2,559,378
Prior Period Adjustment:		
Unbilled Revenue	<u>65,000</u>	<u>27,000</u>
Beginning Fund Balance, As Restated	<u>\$ 5,153,184</u>	<u>\$ 2,586,378</u>

The prior period adjustments for the utility funds are to correct the following errors:

In the prior years, unbilled revenue was not being included in receivables at the end of the year.

**MILFORD MUNICIPAL UTILITIES
BUDGETARY COMPARISON SCHEDULE OF
REVENUES, EXPENSES, AND CHANGES IN BALANCES - BUDGET & ACTUAL
FOR THE YEAR ENDED JUNE 30, 2007**

	Actual	Budgeted Amounts		Final to
		Original	Final	Actual Variance
Receipts:				
Charges For Services	\$ 3,232,305	\$ 3,309,345	\$ 3,452,345	\$ (220,040)
Non-Operating	113,541	17,304	17,304	96,237
Total Receipts	<u>3,345,846</u>	<u>3,326,649</u>	<u>3,469,649</u>	<u>(123,803)</u>
Expenditures:				
Electric	2,399,476	2,336,961	2,665,694	266,218
Water	619,544	723,843	780,110	160,566
Total Expenditures	<u>3,019,020</u>	<u>3,060,804</u>	<u>3,445,804</u>	<u>426,784</u>
Net Change in Net Assets	326,826	265,845	23,845	302,981
Net Assets at Beginning of Year	7,647,562	7,647,562	7,647,562	
Prior Period Adjustment	92,000	92,000	92,000	
Net Assets at Beginning of Year, Restated	<u>7,739,562</u>	<u>7,739,562</u>	<u>7,739,562</u>	
Net Assets at End of Year	<u>\$ 8,066,388</u>	<u>\$ 8,005,407</u>	<u>\$ 7,763,407</u>	

See Accompanying Independent Auditors' Report

MILFORD MUNICIPAL UTILITIES
NOTES TO REQUIRED SUPPLEMENTARY INFORMATION –
BUDGETARY REPORTING
YEAR ENDED JUNE 30, 2007

The budgetary comparison is presented as Required Supplementary Information in accordance with Governmental Accounting Standards Board Statement No. 41 for governments with significant budgetary perspective differences resulting from not being able to present budgetary comparisons for the utility.

In accordance with the Code of Iowa, Milford Municipal Utilities annually adopt a budget, following required public notice and hearing. The annual budget may be amended during the year utilizing similar statutorily prescribed procedures. All Utilities' disbursements are included in business-type activities function. During the year ended June 30, 2007, one budget amendment increased budgeted revenues by \$143,000 and increased budgeted disbursements by \$385,000. This budget amendment is reflected in the final budgeted amounts.

**MILFORD MUNICIPAL UTILITIES
SCHEDULE OF DIRECT COSTS, OPERATING COSTS, AND
ADMINISTRATIVE EXPENSES
FOR THE YEAR ENDED JUNE 30, 2007**

	Electric Fund	Water Fund
Direct Costs:		
Distribution Maintenance	\$ 14,923	\$ 3,632
Equipment Maintenance	45,683	10,322
Lab	-	8,419
Neal #4 Charges - Coal, Oil, Power Generator	218,135	-
Plant Maintenance	-	19,942
Product - Chlorine and Flouride	-	34,706
Purchased Power	4,770	29,340
Purchased Power - NIMECA	977,324	-
Purchased Power - WAPA	221,799	-
Sewer Charges	-	4,770
Wheeling	16,919	-
Total Direct Costs	<u>1,499,553</u>	<u>111,131</u>
Other Operating Expenses:		
Salaries	237,869	119,791
Small Tools and Supplies	16,743	1,914
Sub-Contractor	10,955	17,608
Vehicle Expense	20,498	2,756
Miscellaneous Operating Expenses	522	160
Total Other Operating Expenses	<u>286,587</u>	<u>142,229</u>

**MILFORD MUNICIPAL UTILITIES
SCHEDULE OF DIRECT COSTS, OPERATING COSTS, AND
ADMINISTRATIVE EXPENSES
FOR THE YEAR ENDED JUNE 30, 2007**

	Electric Fund	Water Fund
Administrative Expenses:		
Advertising	\$ 371	\$ -
Amortization	26,139	-
Bad debts	3,256	669
Building Maintenance - Office	10,107	677
Building Maintenance - Mowing	2,093	2,508
Community Development	2,033	1,780
Computer Repairs and Maintenance	2,921	2,917
Computer Supplies and Programs	1,483	-
Depreciation	251,131	132,689
Director Fees	2,969	2,350
Dues and Subscriptions	5,280	2,143
Education and Safety	2,870	1,231
Employee Benefits	41,533	21,407
Insurance - General	32,585	21,278
Laundry and Uniforms	1,683	571
Legal and Professional	20,724	6,230
Maintenance - Office Equipment	151	151
Miscellaneous	797	13
Office Supplies	7,699	7,105
Payroll Taxes - FICA and IPERS	31,239	15,981
Postage	5,695	5,344
Property Taxes	15,555	-
Rebates	10,434	-
Supplies	594	707
Sales Tax Paid	71,048	32,861
Telephone	3,864	1,676
Travel	2,791	233
Utilities and Sanitation	306	186
Inventory Adjustment	(30)	(20)
Total Administrative Expenses	<u>557,321</u>	<u>260,687</u>
Total	<u><u>\$ 2,343,461</u></u>	<u><u>\$ 514,047</u></u>



Certified Public Accountants

**INDEPENDENT AUDITOR'S REPORT ON INTERNAL CONTROL OVER FINANCIAL
REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF
FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH GOVERNMENT
AUDITING STANDARDS**

Board of Trustees
Milford Municipal Utilities
Milford, IA 51351

We have audited the financial statements of the Milford Municipal Utilities as of and for the year ended June 30, 2007, and have issued our report thereon dated October 18, 2007. We conducted our audit in accordance with generally accepted auditing standards and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the Milford Municipal Utilities' internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing our opinion on the effectiveness of the Utilities' internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of Milford Municipal Utilities' internal control over financial reporting.

A control deficiency exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the utilities' ability to initiate, authorize, record, process, or report financial data reliably in accordance with U.S. generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of the utilities' financial statements that is more than inconsequential will not be prevented or detected by the utilities' internal control. We consider the deficiencies in internal control described in Part I of the accompanying Schedule of Findings and Questioned Costs to be significant deficiencies in internal control over financial reporting.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by the utilities' internal control.

Our consideration of the internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in the internal control that might be significant deficiencies and, accordingly, would not necessarily disclose all significant deficiencies that are also considered to be material weaknesses. However, we believe the reportable condition described above, item I-B-07, is a material weakness.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Milford Municipal Utilities' financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, non-compliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of non-compliance that are required to be reported under *Government Auditing Standards*.

Comments involving statutory and other legal matters about the Utilities' operations for the year ended June 30, 2007 are based exclusively on knowledge obtained from procedures performed during our audit of the financial statements of the Utilities. Since our audit was based on tests and samples, not all transactions that might have had an impact on the comments were necessarily audited. The comments involving statutory and other legal matters are not intended to constitute legal interpretations of those statutes.

Milford Municipal Utilities' responses to findings identified in our audit are described in the accompanying Schedule of Findings and Questioned Costs. While we have expressed our conclusions on the Utilities' responses, we did not audit the Utilities' responses and, accordingly, we express no opinion on them.

This report, a public record by law, is intended for the information and use of the officials, employees and citizens of the City of Milford and other parties to whom the Milford Municipal Utilities may report. This report is not intended to be and should not be used by anyone other than these specified parties.

We would like to acknowledge the many courtesies and assistance extended to us by personnel of the Milford Municipal Utilities during the course of our audit. Should you have any questions concerning any of the above matters, we shall be pleased to discuss them with you at your convenience.

A handwritten signature in cursive script that reads "Williams & Company, P.C.".

Certified Public Accountants

Spencer, Iowa
October 18, 2007

**MILFORD MUNICIPAL UTILITIES
SCHEDULE OF FINDINGS
YEAR ENDED JUNE 30, 2007**

Part I: Findings Related to the Financial Statements

I-A-07 Segregation of Duties – During our review of internal control structure, the existing procedures are evaluated in order to determine that incompatible duties, from a control standpoint, are not performed by the same employee. This segregation of duties helps to prevent losses from employee error or dishonesty and therefore maximizes the accuracy of the District's financial statements.

Recommendation – We realize that it is difficult to appropriately segregate duties when the number of employees is limited. Therefore, we recommend the Board maintain their diligence in the review of the financial records.

Response – We will continue our review.

Conclusion – Response accepted.

I-B-07 Financial Reporting – During the audit, we identified material amounts of capital asset additions not recorded in the Utilities' financial statements. Adjustments were subsequently made by the Utilities' to properly include these amounts in the financial statements.

Recommendation – The Utility should implement procedures to ensure all capital asset additions are identified and included in the financial statements in the future.

Response – We will revise our current procedures to ensure the proper amounts are recorded in the financial statements in the future.

Conclusion – Response accepted.

**MILFORD MUNICIPAL UTILITIES
SCHEDULE OF FINDINGS
YEAR ENDED JUNE 30, 2007**

Part II: Other Findings Related to Required Statutory Reporting

- II-A-07 Certified Budget – Disbursements during the year ended June 30, 2007 did not exceed the amounts budgeted in the business type activities function.
- II-B-07 Questionable Disbursements – No expenditures were noted which did not meet the requirements of public purpose as defined in an Attorney General's opinion dated April 25, 1979.
- II-C-07 Travel Expense – No expenditures of the Utilities' money for travel expenses of spouses of Utilities' officials or employees were noted.
- II-D-07 Business Transactions – Business transactions between the Utilities and Utilities' officials are detailed as follows:

<u>Name, Title and Business Connection</u>	<u>Transaction Description</u>	<u>Amount</u>
James Studer, Trustee Owner, Excel Auto Body, Ltd.	Maintenance	\$ 892
Keith Wurtz, Trustee Owner, Milford Pharmacy	Supplies	\$ 31

In accordance with Chapter 362.5(10) of the Code of Iowa, the transactions with the Trustees do not appear to represent conflicts of interest, since total transactions with each Trustee did not exceed \$1,500 during the fiscal year.

- II-E-07 Bond Coverage – Surety bond coverage of Utilities' officials and employees is in accordance with statutory provisions. The amount of coverage should be reviewed annually to ensure that the coverage is adequate for current operations.
- II-F-07 Board Minutes – No transactions were found that we believe should have been approved in the Board minutes but were not.
- II-G-07 Deposits and Investments – No instances of non-compliance with the deposit and investment provisions of Chapter 12B and 12C of the Code of Iowa and the Utilities' investment policy were noted.
- II-H-07 Revenue Notes – The Utilities has complied with the water and electric revenue note provisions or has received a waiver of the requirements from the holder of the notes.